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January 20, 2014

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VIA OVERNIGHT MAIL

Ms. Alisa Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, Delaware 19904

Re: In the Matter of the Application of Delmarva Power & Light Company for An Increase in Electric Base Rates and Miscellaneous Tariff Changes
Docket No. 13-115

Dear Ms. Bentley:

Enclosed please find an original and 10 copies of the Answering Brief of Delaware Energy Users Group to be filed in the above-referenced matter.

Please contact me should you have any questions regarding this filing. Thank you for your consideration.

Sincerely,

Michael J. Quinan

MJQ/wcv

Enclosures

cc: Service List *(via electronic mail)*

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR FOR AN INCREASE IN ELECTRIC BASE RATES AND MISCELLANEOUS TARIFF CHANGES (FILED MARCH 22, 2013)	)	PSC DOCKET NO. 13-115

ANSWERING BRIEF OF DELAWARE ENERGY USERS GROUP

The Delaware Energy Users Group ("DEUG"), by counsel, hereby submits this brief in answer to the Opening Brief of Delmarva Power & Light Company ("Delmarva" or "Company").

The scope of this brief is limited to the issues addressed by DEUG in its prefiled testimony and at the evidentiary hearing, including specifically the Class Cost of Service Study and Revenue Allocation. The fact that other issues raised by Delmarva's application are not addressed herein is not intended to indicate agreement or acquiescence. Generally, DEUG supports the positions taken by the Commission Staff and the Division of the Public Advocate advocating for reduction of the revenue requirement.

1. The Class Cost of Service Study.

As explained by DEUG witness Nicholas Phillips, Jr., in his prefiled testimony,[1] the Class Cost of Service Study ("CCOSS") conducted by Delmarva and presented in support of its application fails to take into account certain necessary cost causation principles. Although Delmarva's CCOSS comports with generally accepted cost of service study methods, the

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[1] Exh. 16, Phillips Direct.

classification and allocation of certain distribution plant accounts should be modified to classify a portion of those accounts as customer-related, rather than as demand-related or energy-related.[2]

Certain distribution investments that must be made to connect a customer to the system are unrelated to that customer's demand level or energy usage and should properly be considered as customer-related. Mr. Phillip's analysis shows that Delmarva's CCOSS fails to reflect a reasonable customer component in the classification and allocation of certain distribution plant costs, resulting in proposed rates for the General Service Primary ("GSP") customer class, in particular, that are inflated and that would produce revenues substantially above the cost of service. For this reason, Mr. Phillips has prepared and submitted a revised CCOSS that takes into account actual cost causation and that should be used to allocate any distribution revenue increase in this case, as well as in the design of distribution rates.[3]

Delmarva criticizes Mr. Phillips analysis because he uses data from a Minimum Distribution System ("MDS") study that Delmarva was required to file in Maryland, and because such MDS analysis has not been previously used by the Delaware Commission.[4] The problem with Delmarva's criticism of Mr. Phillips analysis is that is that it fails to recognize that he is simply proposing a reasonable correction of a clear error in Delmarva's analysis. Because Mr. Phillips was, necessarily and practically, unable to perform a new and fully blown CCOSS from scratch, Delmarva argues that his criticism of its CCOSS should be completely disregarded. But Mr. Philips does not argue that the costs associated with certain distribution plant accounts[5]

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[2] Id., p. 6.

[3] Id., Attachment NP-4. For purposes of comparison, in preparing his revised CCOSS, Mr. Phillips used Delmarva's requested revenue numbers. This should not be interpreted as an endorsement of those numbers for purposes of determining the dollar amount of the rate change to be authorized in this proceeding. Id., p. 2.

[4] Delmarva Opening Brief, pp. 106-07.

[5] Accounts 364 (Poles, Towers and Fixtures); 365 (Overhead Conductors and Devices); 366 (Underground Conduit); and 367 (Underground Conductors and Devices). See Exh. I6, p. 10.

should be classified as entirely customer-related. He is only arguing that they should not be classified as entirely demand-related. Such allocation of a portion of those cost as customer-related is only consistent with general ratemaking policy objectives, such as customer equity, conservation and revenue stability.[6] Delmarva's analysis completely disregards the obvious fact that the costs of constructing, maintaining and repairing a widespread distribution network to serve numerous residential customers is necessarily greater than the costs of providing distribution service to a relative handful of industrial customers. As Mr. Phillips explained, "[w]hile data requirements and certain aspects of developing a customer component may be criticized, using no customer component is clearly wrong and produces erroneous results."[7] Mr. Phillips recommends only a "conservative implementation" of a customer component that is fair and reasonable.

2. Revenue Allocation

The revenue allocation issue raised by DEUG relates to the rate Delmarva proposes to charge to the General Service Transmission ("GST") class of customers. Delmarva's rate design for the GST class fails to take into account the fact that those customers were offered a credit for power factor improvement that reduces costs and benefits the entire system. By failing to take that credit into account, Delmarva has significantly inflated the revenue burden imposed on the GST class. To correct for this, Mr. Phillips proposes that the percentage increase in GST rates granted by the Commission in this proceeding should be no more than one-half the system average percentage increase.[8]

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[6] Id., at 18.
[7] Id., at 20.
[8] Id., at 3.

The GST class is a unique class of seven customers served at transmission voltage. The GST rate provides a credit to GST customers that increase their power factor above 90%. As Mr. Phillips explained, "[a]n increase in power factor is desirable and reflects a benefit to the system and generally lowers overall cost to the system."[9] The problem with Delmarva's revenue allocation in this case is that it allocates the cost of that credit back to the very customers who were offered the credit – which means that in effect there is no credit at all. The customer who was provided a supposed credit, and consequently took action at its own expense in response to a price signal designed to benefit the system, will see its rates go up in order to cover that credit. And the impact on these customers is a substantial one, raising the rate of return of the GST class from what would be a negative 4.23% to a positive 28%.[10]

Because the GST class receives service at transmission level, the only cost of distribution service it receives is the cost of metering and billing it. Mr. Phillips recommendation that any increase in the GST rate should be limited to no more than one half the system average percentage increase is more than fair.

Respectfully submitted,

DELAWARE ENERGY USERS GROUP

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[9] Id., at 21.
[10] Id., at 21-22.

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#1533995

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR AN INCREASE IN ELECTRIC BASE RATES (Filed March 22, 2013)	))))	PSC DOCKET NO. 13-115

CERTIFICATE OF SERVICE

I hereby certify that on January 21, 2014 I caused the accompanying **Answering Brief of Delaware Energy User Group** to be served by electronic mail upon all parties on the attached service list.

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PSC DOCKET No. 13-115
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